

VZCZCXYZ0000
PP RUEHWEB

DE RUEHMO #1210 0801133
ZNY CCCCC ZZH
P 211133Z MAR 07
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 8437
INFO RUEHFT/AMCONSUL FRANKFURT PRIORITY 3251
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L MOSCOW 001210

SIPDIS

SIPDIS

STATE FOR EUR/RUS, EB/CBA
FRANKFURT FOR COTTER
TREASURY FOR BAKER/ALIKONIS
NSC FOR KLECHESKI AND MCKIBBEN
USDOC FOR 4231/IEP/EUR/JBROUGHIER

E.O. 12958: DECL: 03/21/2017

TAGS: EFIN ECON RS

SUBJECT: RUSSIA: PWC FINED IN YUKOS TAX AUDIT CASE

REF: MOSCOW 1028

Classified By: ECON M/C Pam Quanrud, Reasons 1.4 (b/d).

¶1. (SBU) On March 20, the Moscow District Federal Arbitration Court (FAC) ruled against PricewaterhouseCoopers (PWC), agreeing with the Federal Tax Service that PWC had falsified its 2002-2004 audits of former oil giant Yukos. The panel rendered its decision after only four hours of testimony and presentation of arguments. According to the ruling, the written version of which is expected out in 5 to 10 days, PWC must pay the Federal Tax Service USD 645,000, a sum equal to the amount PWC received for its audit services plus administrative fines. PWC representatives said they plan to file an appeal, a process which would then play out over the next six to eight weeks.

¶2. (C) The head of PWC's Russia operations, Mike Kubena (Amcit, protect), told us he was disappointed with the outcome. The legal merits of PWC's case were largely ignored, and prosecutors denied the PWC defense team's request to examine and comment on the Tax Service's evidence before the court ruled in the case. The prosecution used documents investigators obtained during an inspection of PWC's Moscow office on March 9 to show that PWC allegedly deceived Yukos investors by showing them an audit that differed substantially from the report to management, which in turn facilitated the former oil giant's tax evasion schemes. Kubena lamented that the ruling reflects a fundamental misunderstanding of the auditor's roles and responsibilities and common international accounting practice.

¶3. (SBU) Media coverage of the FAC ruling has suggested that criminal charges could apply, but Kubena explained that no criminal charges have been filed, nor has a criminal investigation been opened. In the second PWC tax case, involving the treatment of expat salaries, the Interior Ministry waited for the appeals process to play out before initiating criminal investigations, which explains why the MVD waited until January to launch a criminal investigation in that case. That investigation is already in its second month, with no criminal charges filed to date. The Supreme Arbitration Court has also not responded to PWC's February 16 request for a hearing on the expatriate salary issue.

¶4. (SBU) Kubena said that PWC is deeply concerned about this ruling and is mapping out its next steps, but continues to hold out hope for a reasonable solution. The firm has no plans to further air its disappointment about yesterday's

ruling publicly, beyond what has already been released from its Moscow office. He remains confident in the strength of the legal merits of the firm's audit practices and urges continued restraint when discussing this case in public.

BURNS